

**SALARY COMMISSION  
MINUTES  
October 8, 2021  
Meeting Site: Online via Blue Jeans**

**1. Call to Order/Roll Call**

The meeting was called to order by Chair Abbott at 8:33 a.m.

**Present:**

Clark Abbott, Chair  
Dawnalyn Fujiwara, Vice-Chair  
Tambara Garrick  
Grant Nakama  
Scott Parker  
Edwin Misaki  
Peter Martin

**Excused:**

Andrew Ho  
Stanford Lantias

**Staff:**

Gary Murai, Deputy Corporation Counsel  
Stacy Takahashi, Administrative Officer  
Rochelle Ines, Secretary  
LeeAnn Nomura Matsui, Secretary

**2. Public Testimony**

There was no public testimony presented.

**3. Approval of the Minutes**

Commissioner Garrick made the motion seconded by Commissioner Nakama to approve the minutes of the September 10, 2021 meeting. The motion was unanimously passed.

**4. FY 2022 salary reviews for the Mayor, County Council Members, Department Directors, Department Deputy Directors, and the County Auditor.**

- a. Presentation by Dr. Carl Bonham, Professor of Economics, Executive Director University of Hawaii Economic Research Organization forecast for the State of Hawaii regarding the economic conditions and COVID-19 economic recovery.

*Slideshow presentation: Delta Wave Swamps Tourism, But Return to Recovery Expected.*

They released a forecast focused on Delta. Like most of these forecast for the last year and a half has been about the pandemic, about COVID. The virus is the economy. It's all about how we control the virus and how it impacts us.

*Chart: Share of total population fully vaccinated & New cases per million population*

When they released a forecast in May it was a very optimistic forecast because we saw a high rate of vaccination in the US and Hawaii. As of October 7, 2021, Hawaii's vaccination rate was 69.2% of the population. It's the highest rate of completed vaccinations since mid-September due to the vaccination passports. Back in May we were optimistic about the summer because of high vaccination rates. Canada and Japan had low vaccination rates during the summer but they've both surpassed the US.

The Delta wave of COVID-19 began in July 2021. When we started working on this particular forecast in early July, we were still optimistic. These are case counts per millions of populations that can easily compare it to the US. One thing to know is for the State as a whole we never had any experience in terms of spreading the virus that was even close to comparable to continental US spread. The continental US always had much higher case count than Hawaii until this summer, until the Delta variant. We even surpassed the national numbers on a per capita basis for a period of time in late August.

In the Spring, Maui had a spike in visitors. US visitors to Maui broke records. 92% of the projected amount were visitors to Maui.

As they went into the forecast preparation, they were optimistic and spent the last 3-4 weeks of the forecast and made adjustments downward and looking at the data on cancellations in the hotels and looking at the possibilities of job losses associated with a wave of the virus that was going to cause local residents to change their behavior some and certainly cause visitors to stay away. The good news is that the numbers have come down sharply. As they were working on the forecast in August, they basically had to forecast the path of the pandemic. That's not really what they do.

*Chart "Maui County July Visitor arrivals hit 92% of 2019 count." Monthly Data.*

In Summer, they compared the 2019 visitor arrivals data, monthly data, non-seasonal adjusted data so you can see from July to September you have a normal decline in visitor arrivals. Kids went back to school and people have already done their summer vacation. June through August months are the peaks, that's the head of the season, then you got your shoulders after Christmas and the other shoulder in the fall, that's the normal pattern. In their optimistic forecast for Maui County visitors, they expected that they will see a fall-off in September. In their forecast reports, because of the tremendous uncertainty, they are doing three different forecast reports. Baseline, which they think of it as their preferred forecast and they are doing scenarios around that and this is what actually happened in 2021 with arrivals. The baseline forecast would have been below the

optimistic line. Everybody was surprised by the amount of pent up demand. Looking backwards, hindsight is 2020. Maybe we should not have been so surprised because US visitors had been pent up at home, they couldn't really travel anywhere else in the world. They couldn't go to Canada, not sure if they could've gone to Mexico, Europe was a struggle and at times it was impossible and we probably should not have been so surprised, but as a matter of fact we were. So actual arrivals surged and by July total arrivals to Maui County were at 92% at the 2019 levels.

So it is not true, there have been various reports and he saw an editorial in Civil Beat that said 'well we broke all records for visitor arrivals this summer,' but we didn't. It is true that US visitors to Maui broke records, but we didn't have any international visitors.

August had a downturn that was sharper than we expected and we know that there were cancellations starting as early as late July. Hotels started seeing increased cancellations for August and September. This was associated with the spread of Delta and news started to spread on the Mainland that hospitals were filling up, our case counts were surging and having high positive rates and so people were having to make a tough choice.

This is our new forecast. This is all about two different things. You can't completely disentangle them - one of them is the normal seasonality, which you can see in the 2019 data and what we're getting is a bigger drop in visitors that you would normally see and statewide that drop in visitors. We're talking hundreds and thousands of fewer visitors and hundreds and millions of less spending. The September daily visitor count that they post on their website on their data portal and the baseline forecast was almost exactly right, about 150,000 visitors in September. So their expectations of this will be temporary.

*Chart: Visitor mix and discounting impacts Maui visitor spending*

Looking at the total number of visitors, the average number of visitors on Maui on any given day (cumulative, adding up all the visitors on Maui 2021) by August we were at almost 80% of 2019 levels for the average number of people on island on any day. What we were missing is the international visitor spending. A lot of these visitors that came particularly during the early part of 2021, was a mix of visitors, people looking for deals and again missing that international visitors. No Canadians, Australians, New Zealanders, and Europeans, so the spending was impacted. Also prices were rising. Prices rose fairly rapidly in the 4, 5, 6% range throughout parts of 2021 so that acted to drag down real spending.

*Chart: Maui led the state in summer jobs recovery*

The summer surge in visitors mattered for recovery and jobs. The percentage change in jobs compared to February 2020.

September 2020 is the reopening with launching Safe Travels in October 2020 and since that time the recovery of jobs statewide actually it's been faster than at the national level. Maui has recovered more rapidly than the other islands because Maui had the best access to the US market. Unlike Kauai, Maui didn't

go thru a second or third shut down in the winter. Bringing the visitors back in the summer despite some of the problems that it created with traffic, crowding at beaches and people renting U-hauls to drive around and with all of those things, it made a difference in putting people back to work.

*Chart: UHERO Economic Pulse vs monthly payroll jobs*

Putting that into context, now we're dealing with Delta and we expect those job losses to return. Maui was the only County that didn't experience job losses in the August 2021 data, all the other Counties saw a decline in jobs. That's likely attributable that Maui had stronger visitor performance in August.

Looking forward, and it's something that was created Statewide, they don't have these at the County level. It's an index that they produce weekly and they put it out on their daily portal every week and it's a combination actually in the source this link refers to the methodology for how we constructed it. What it does is it pulls together high frequency weekly data on about 16-17 different indicators of economic activity. There is a lot of mobility data, open table data, Google mobility data on whether people are going to work or staying home, going to restaurants or parks. There's also weekly payroll data from Pro-Service Hawaii, job openings data, data series included in this on Google searches for COVID and daily passengers are included as part of this. It's set to a 100 in March 2020 right before the pandemic, and it goes to zero in April 2020 when everything is shut down. When we get back up to 35% by late June, this means that we recovered 35% of less economic activity and then it turns down with summer surge. The wave that we saw that left to additional shut down. The index turns down long before any government rules change. It turns down because people started changing their behavior, particularly during the second wave, mobility numbers went down a lot in April and in the summer and early fall of 2020, we were still cleaning off our groceries after it was delivered to our homes or leaving stuff from Amazon in our garage after it was delivered for a week so it was decontaminated. It was so much uncertainty all of that affected economic activity before there were any pronouncements.

Then the upturn comes with opening up the Safe Travels in mid-October and then you can see the effects of the summer boom in tourism that shows up in passengers, mobility, restaurant activity and the down turn associated with Delta. The good news is we've turned the corner again and started to head up. This index has been very useful in predicting the path of jobs which is on the right access. This is total payroll jobs for the State and when the index turned down, it for shaded the decline in jobs for August, that's the last data point we had for jobs. We'll get the September jobs data in about a week.

We lost 6,000 jobs in August, economic pulse suggests another somewhere 6,000-10,000 jobs lost in September. What's happening is that Delta wave that has led to our reductions on some layoffs certainly led to situation where some people and businesses aren't hiring they would have been other-wise is leading to a pause in the jobs recovery or an outright back tracking in the jobs recovery which is coming at the worst possible time. The reason why is that it's because the Pandemic Assistance ended.

*Chart: Federal Pandemic Unemployment Assistance Ends*

The Federal claims, the PUA, PEUC programs, pandemic assistance programs that are helping get workers and self-employed, around 50-60,000 claims per weeks and now it's fallen to less than 10,000 because the Federal program ended on September 4, 2021. These are folks that are no longer receiving any benefits at all. Some of them may be eligible for regular unemployment benefits and that may explain why we've seen an uptick in initial claims for regular unemployment benefits. It was 1,500 claims higher per week and if you look at the dollars that we're taking about, we're looking at a drop in unemployment payouts of about \$500 million in the third quarter to the fourth quarter and actually the third quarter fell by about \$250 million from the first quarter. As we saw changes in the size of the plus up unemployment benefits. So were talking about shaving  $\frac{3}{4}$  of a billion dollars out of peoples pocket books during the second half of 2021. That's why it's so important that we have job growth to get these people back to work.

*Chart: Statewide real wages remain below pre-pandemic levels*

There's been a lot of talk of inflation and job/labor shortages and in some cases that's leading to wage growth. Statewide real wages data chart below pre-pandemic levels, there's 2 sectors that we looked at that have seen positive wage growth between July 2019 to July 2021, we didn't want to compare it to July 2020 because of the shut-down, only food service and construction have seen real wage growth. All of the other sectors has seen small to moderate declines in wages. The data is really challenging to work with in terms of making this comparison in across periods that have gone thru tremendous disruption and the seasonality on the data has also been disrupted that makes the month to month comparison challenging. The sectors are different, the people who are working in retail trade or food service may be a different mix of people than two years ago. As you went into the pandemic the people who lost their jobs initially are the lowest paid workers and if you haven't brought them back then we may be looking at a higher skilled, higher paid worker in the workforce right now than two years ago. And so it tends to distort these numbers.

The basic picture is wage growth that has not kept up with the surge in inflation that we've seen. They do think that the inflation is going to be temporary, that's not something that's going to go on year after year, he thinks there's a very good change that it's going on longer than we expect, particularly with the supply chain disruptions that are continuing as a result of the virus and the pandemic so the supply chain disruptions will take time to work out and in order for them to be worked out were going to have to get to a point globally where the virus doesn't shut-down manufacturing, farming, ports around the entire world for extended periods of time. That's likely going to take longer than most people think.

*Chart: When will Hawaii welcome visitors back?*

As he mentioned in the beginning, when working on the forecast, you really have to know where the pandemic is going to be. You need to know how long the surge in cases is going to last and how long the virus is going to impact policy. On August 23, 2021, the Governor said this is not a good time to visit Hawaii due to

hospitalizations being so high. Visitors were concerned about that and didn't want to come to Hawaii and be here where there is a whole new set of restrictions in place or need to access a hospital and not be able to and this impacted the economy. The CDC gathers forecast from all over the Country every week from researchers, epidemiology, math mathematicians at universities all across the country and they have the forecast for case counts, new hospitalizations and deaths for every state in the country, and in some places, every county in the country and they combine these into the ensemble forecast. They are taking 10 to 15 forecast and effectively averaging them and what that does is it creates a forecast that's better than the individual forecast.

The CDC's ensemble forecast is showing a downward trend in new hospitalizations and in case counts in over a month. Back in late August, CDC's forecast was already going down. That gave us confidence that it was a temporary short term event that is a good reason for policy to change now. We should see changes in policies for tourists to travel responsibly.

*Chart: When will Maui welcome visitors back?*

Maui does have the lowest rate of vaccinations of any county and so we still have to be careful, significant restrictions needs to be in placed particularly outdoor activities and certainly for visitors.

*Chart: Maui County Payroll Jobs scenarios (dark blue line is the baseline forecast when they released the forecast in the beginning of the summer and the gold line is the new forecast)*

Maui County Payroll forecast, job loses, things were worst in the beginning of the pandemic than they originally anticipated. Then we had the summer tourism that led our new forecast to be much higher than the old one, then we had the delta surge that actually caused the new forecast. If there is another variant that comes along, particularly one that escapes the vaccinations, then we have a whole new situation that creates more permanent loss of jobs. Frankly you'll have to know what's going to happen to the virus in order to be able to do the prime forecast the economy and no one really knows exactly what's going to happen with the virus so that is why we do the scenarios.

*Chart: Maui County Tax revenues set to jump if rates don't change*

With the rapid growth of home prices, there is a 1 to 2-year lag between home price growth and real property tax valuation. Bulk of it is residential. We anticipate property tax valuations will grow by double digits over the next two years. It will be a strain on households whose income isn't rising. All visitor income has been replaced by federal dollars. We don't know what will happen with bills in Congress.

Chair Abbott thanked Dr. Bonham on his presentation.

Commissioner Nakama thanked Dr. Bonham for the presentation. He asked general question about inflation. He knows that it was mainly county specific and Hawaii specific, but overall what's your take on the inflation situation.

Dr. Bonham: Basically we're looking at in 2021 inflation between 3- 4%. We don't have consumer price and index data for Maui so all the work that they do when they look at inflation and adjust for cost of living, there are using Honolulu CPI because it's all they have. It's not a bad thing to do for the neighbor islands, but their inflation pictures can be different. Maui's inflation picture will likely be a little bit worse than Oahu because of the more rapid price appreciation of rents and home values. Since we're looking at a 4% inflation in 2021, but then elevated inflation on the order of 3% in the next several years. If oil prices come down hard, they've spiked up recently as the global economy started to ramp up and we come off the lows from the pandemic, those temporary factors will go away, but the one thing that's still left is those double digit growth rates in home prices will show up in rents, and that will show up in cost of living and inflation numbers. That's something that will carry over in the next several years.

Commissioner Nakama: A rate of 3-4% is the new norm compared to the previous several years of like 2% or so.

Dr. Bonham: I think 3-4% in the near term, and we might see 4½-5% for a year depending on what happens in the supply chain challenges and oil prices in particular. A new norm for the next 2 or 3 years of around 3% instead of the old 2%.

Commissioner Martin: We have a Olowalu wedding business and a camp and the camp is exactly what you said. Our tourism in the camp we gross almost \$200,000 in July, and it fell off the cliff. Whereas our construction company, swimming pools and things has been very strong. I find our job at the Salary Commission is to try to create the proper salary for Mayor, Council and Directors. (audio was garbled) In general, people on Maui doesn't look like our wages are going up much, and how to apply that thinking to on what to pay the Council Members and Public Works. Our job is to apply this information. Inflation is going up and that doesn't mean we can pay people more because in general there not going to get paid more. Is that true? What are your thoughts.

Dr. Bonham: That's a good question. One thing to keep in mind is the wage data that he showed was backward looking and it always takes time, so if you have a spike in inflation what tends to happen is that for a year or year and a half, wages don't keep up and then eventually they catch up again. Over long periods of time, wages and inflation are going to move together, at least together, if not wages are going to move faster because of improving productivity and standards of living. He doesn't think that we want to say that Maui wages over the next 3 years won't keep up with inflation, it'll be rocky, but eventually the wages will catch up.

If the goal was to keep wages from falling in real dollars then you'll be looking at salary changes that were keeping up with inflation. 3% for several years would make sense. It might undershoot or overshoot for a period of time but depending on your horizon, if it's two or three years long it seems pretty reasonable to me. There's so much going on the labor market right now, no one fully understands.

For the swimming pool example, a group of researchers at Harvard is gathering high frequency data on spending and credit card data. One of the things he saw at the beginning of the pandemic was no spending on hotels and restaurants but

a big spike in people renovating their homes and people putting in pools specifically. That same group is trying to figure out what's happening in the labor market. We have high levels of unemployment but people cannot find workers right now. A lot of people left the workplace – for retirement, not taking a second job back, those kinds of things will drive wages higher.

Commissioner Martin left the meeting.

Chair Abbott thanked Dr. Bonham for his excellent and very informational presentation.

- b. Presentation by Managing Director Sandy Baz, Department of Management (Slideshow Presentation and Annual Report were emailed to the Commissioners after the meeting.)
- Sandy Baz, Managing Director
  - Josiah Nishita, Deputy Managing Director

Managing Director is appointed by the Mayor with the approval of the Council.

1. Act as the principal management aid to the Mayor.
2. Supervise the administrative functions of those agencies, departments, boards and commissions assigned by the Mayor.
3. Evaluate the management and performance of each agency.
4. Prescribe standards of administrative practice to be followed by all agencies under his or her supervision.
5. Supervise and coordinate those functions described in Subsections 7-5.6, 7-5.7 and 7-5.8: Develop control, manage and execute the annual operating budget and capital program; Conduct a systematic and continual review of the finances, organizations, and methods of each department.
6. Perform all other duties and functions required by the charter or assigned by the Mayor.

Departmental Functions:

Mission Statement: To constantly strive to deliver effective government services in a way that is transparent, collaborative, and inclusive using sound management practices and good governance.

Department of Management:

- Countywide Capital Improvement/Energy
- EEO/AA/ADA
- Executive Assistants – Policy development and implementation; evaluation of department functions and organization
- Information Technology Services – 53 employees
- Loss Control/Security – physical security and card access
- Planning & Development – Chief and planner, civil engineer, architect, archaeologist for projects

FY22 Budget:

- Management Program
  - Planning Department, CIP, Executive Assistance, Security, EEO
- Information Technology Services Program

CIP renovations to:

- 60 N. Church Street, Wailuku (Hawaiian Telcom)
- 100 Mahalani Street, Wailuku (The Maui News)

Commissioner Parker asked - regarding salaries and salary inversions. We were provided information from Director Underwood. There are two employees within the department that has gross pay higher than your Deputy Director and the gap is about \$10,000. Based on that and in general, should there be any adjustments to the Director or Deputy Director salary to account for these gaps?

Director Baz replied that is an important factor. The positions and individuals with longevity in civil service positions and departments does create on occasion salary inversion in some areas. That's one factor, it's understood that's part of the process. There's not a lot of respect or understanding of authority by those people even though they get paid more than the deputy. He has the same problem with his director reports as well. The directors of Corporation Counsel, Prosecuting Attorney, Police and Fire Department all gets paid significantly more than him, but they do report to him. The Police and Fire Department gets hired by the Commission but for day to day functions, they all report to him. It's something that's understood. If the Commission sees an issue to tackle, we can dive into that. We know what we're getting into when we applied for the job in salaries and taking the challenge in running the departments.

One factor is not specifically to him or deputy director is the attraction within the departments to be a director or deputy, if they are going to get paid less and more headaches and would be hard to recruit. The big challenge we've had is the charter was change a few years ago and the start of this administration was the start of this broad brush of requiring all of the directors to be confirmed by the Council. They had a big factor in our ability to recruit and as there has been vacancies, it has had a factor in people desirable in filling those positions. This is something that is new on how we deal with things.

Chair Abbott asked Director Baz for his presentation to be sent to the Salary Commission Members.

Chair Abbott thanked the Directors for their presentations.

## **5. Agenda Setting for Next Meeting**

Chair Abbott requested the following departments to present at the November 12 meeting:

- Department of Finance
- Department of Police

- Department of Fire & Public Safety
- Department of Liquor
- Department of Corporation Counsel

Commissioner Misaki asked (to Deputy Corporation Counsel Murai) before we finalize the agenda, are these positions on contract or are they County employees? Corporation Counsel Murai clarified that it's appointees. They are employees but not members of civil service but in reality, many may be civil service but on leave from regular positions to serve as appointees.

Commissioner Misaki asked if their salary is a set amount from when they are appointed for the entire time of appointment? Deputy Corporation Counsel Murai said yes, their salary will adjust only if the Salary Commission adjusts it.

Commissioner Misaki asked if there's an annual percentage increase like most government employees have? Deputy Corporation Counsel Murai said it's two totally different systems. Most civil servant salaries are set through collective bargaining. Appointees salaries are set by the Salary Commission.

Commissioner Parker asked what departments are left for presentations? Chair Abbott said he thinks we have 11 or 15 departments left. We heard from five. Commissioner Parker suggested that Police should be scheduled in December after the Police Commission finalizes their decision in their November meeting. This will also give the new Police Chief time to get settled into their job.

Chair Abbott confirmed Finance. Commissioner Parker agreed with Finance and whomever else was remaining. Chair Abbott suggested Finance, Police, Fire, Liquor and Corporation Counsel. Deputy Corporation Counsel Murai reminded Chair Abbott about Prosecutor's Office and grouping departments by their function. Corporation Counsel is not really law enforcement. They are civil attorneys for the County. He also noted that you are not required to talk to the Chief but the rules require us to invite the Police Commission Chair to come and make a presentation or recommendation to the Salary Commission. You are requesting the Police or Fire Commission to speak. You can invite the Chiefs if you want, but that's up to you.

Commissioner Nakama agreed to wait until December and agrees with Commissioner Parker. He thinks Police, Fire and Prosecuting Attorney should wait until December and everyone else in November.

Commissioner Parker asked if Liquor needs to be lumped with them. Deputy Corporation Counsel Murai said yes, Liquor falls into that category. It's a quasi-law Commission.

Commissioner Parker said to commit to 3 and invite 4. Finance, Personnel Transportation, Corporation Counsel for the November meeting. Fire, Police, Liquor, Prosecuting Attorney for December. This leaves Housing and Human Concerns, Parks and Recreation, County Auditor, Mayor and Council for December.

Commissioner Nakama said Commissioner Parker's suggestions make sense.

Commissioner Parker moved and Commissioner Nakama seconded the motion for department presentations at the next meeting. Motion carried unanimously.

- Presentations by the following:
  - Department of Finance
  - Department of Personnel
  - Department of Transportation
  - Department of Corp Counsel

## **6. Announcements**

The next meeting is scheduled for Friday, November 12, 2021 at 8:30am, online, via BlueJeans.

## **7. Adjournment**

Meeting adjourned at 9:50 a.m.